

Fundamental Forex Foundations

4b. Institute for Supply Management (ISM) Services (Non-Manufacturing)

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This Data Point largely measures the Service/Non-Manufacturing Side of the Economy. The Data is released the First Week after the Reporting Month on the 1st Business Day of the Month at approximately 14:00 GMT simultaneously with the ISM Manufacturing Index.

- The ISM Services Release is relatively a new Segment of The Index, and is NOT historically a “Market-Mover”, but will continue to gain Importance moving ahead.
- This is largely Inevitable, since the Service/Non-Manufacturing Sector represents about 80% of the U.S. Economy; hence this Index has the ability to see Economic Changes rather quickly.
- The Service Sector Data is largely “ignored” not just due to Its Age, but also due to Services not being “Cyclical” in nature; as the Manufacturing Sector is... as Consumers consistently spend on Medical, Communications, and Transportation Issues year around.

The Numbers and How They are Derived

Similar to the Manufacturing Data, approximately 400-Member Purchasing Managers will receive Questionnaires nationwide in 17 Industries. The Purchasing Managers are asked if the following Seven Areas have seen either Rising, Falling, or Steady Growth:

1. New Orders.
2. Production.
3. Employment.
4. Inventory Sentiment of Customers, Suppliers, and Their Own Entities.
5. Overall Prices.

6. New Export Orders and Imports.
7. Backlog Orders.
8. Supplier Delivery.

The Number of Firms surveyed per Industry is generally based on each Sector's Contribution to overall GDP.

Trading Ideas

Due to the "Age" of this Index, the ISM Manufacturing Index Release always takes "Precedence" from a Trading Perspective.

(We can still use the general Ideas for the ISM Manufacturing Index here as well, since they are released simultaneously.)

Market Reactions to the Institute for Supply Management – Manufacturing Data prior to and after the Release are:

CURRENCIES: A Healthy Economy with Inflation "In-Check" will usually see an "Expansion" Reading of "50" or above, and will cause Dollar Strength in the Immediate-Term of Release. The Month-Over-Month Reading is CRUCIAL here as a "Number inside the Number"... and significant "Contraction" below "50" will see Dollar Weakness against other Currency Units.

BONDS: An Expansion Reading above "50" is seen as Negative and bearish for Bonds, especially if the overall Economy has been strengthening and expanding with other Positive Factors. A "Weaker" Reading below "40" will be Positive for Bonds and increase Strength, as this emphasizes a weaker Manufacturing Sector. A "Midrange" reading of "40" to "50" will result in largely Flat Impact and reactions from Traders as a whole.

EQUITIES: An Expansion reading above "50" is seen "Inversely" from Bonds, and Equities will find Strength, especially after moderate to average Readings previously. If a positive Reading is seen in a strong overall Economy, then Equities may actually *fall* in a "Counter-Intuitive" fashion. This is due to the Sentiment of the Economy being "overextended" and more importantly... sees the possibility of Action by the Federal Reserve to raise Interest Rates.

Traders may take Cues from overall Volume Builds in Currency Futures ahead of this Release, (as well as other "Index" Releases such as the Philly Fed and Empire Indexes). A look at the most current Commitment of Traders Report may provide some Insight in where the larger Institutional and Retail Positions stand.

A more Direct Scenario may be to look at a 5 or 15-Minute Time Cycle, and if Consensus and the actual Release comes in above the "50" Threshold, Traders may cue a Bearish Candle for Short Positions... as the Reading will be Dollar Positive.

Conversely the opposite is viable as well, with a Bullish Candle to cue Long Positions for Dollar-Weak Readings significantly below the "50" Threshold.

ISM NON-MANUFACTURING SURVEY RESULTS AT A GLANCE
COMPARISON OF ISM NON-MANUFACTURING AND ISM MANUFACTURING SURVEYS*
MAY 2009

| Index | Non-Manufacturing | | | | | | Manufacturing | | |
|-------------------------------------|-------------------|-------------------|----------------------|-------------|----------------|------------------|------------------|-------------------|----------------------|
| | Series Index May | Series Index Apr. | Percent Point Change | Direction | Rate of Change | Trend** (Months) | Series Index May | Series Index Apr. | Percent Point Change |
| NMI/PMI | 44.0 | 43.7 | +0.3 | Contracting | Slower | 8 | 42.8 | 40.1 | +2.7 |
| Business Activity/Production | 42.4 | 45.2 | -2.8 | Contracting | Faster | 8 | 46.0 | 40.4 | +5.6 |
| New Orders | 44.4 | 47.0 | -2.6 | Contracting | Faster | 8 | 51.1 | 47.2 | +3.9 |
| Employment | 39.0 | 37.0 | +2.0 | Contracting | Slower | 13 | 34.3 | 34.4 | -0.1 |
| Supplier Deliveries | 50.0 | 45.5 | +4.5 | Unchanged | From Faster | 1 | 49.8 | 44.9 | +4.9 |
| Inventories | 47.0 | 43.0 | +4.0 | Contracting | Slower | 9 | 32.9 | 33.6 | -0.7 |
| Prices | 46.9 | 40.0 | +6.9 | Decreasing | Slower | 7 | 43.5 | 32.0 | +11.5 |
| Backlog of Orders | 40.0 | 44.0 | -4.0 | Contracting | Faster | 10 | 48.0 | 40.5 | +7.5 |
| New Export Orders | 47.0 | 48.5 | -1.5 | Contracting | Faster | 7 | 48.0 | 44.0 | +4.0 |
| Imports | 46.0 | 48.5 | -2.5 | Contracting | Faster | 7 | 42.5 | 42.0 | +0.5 |
| Inventory Sentiment | 62.5 | 62.5 | 0.0 | Too High | Same | 144 | N/A | N/A | N/A |
| Customers' Inventories | N/A | N/A | N/A | N/A | N/A | N/A | 46.0 | 49.5 | -3.5 |

* **Non-Manufacturing ISM Report On Business®** data is seasonally adjusted for Business Activity, New Orders, Prices and Employment. **Manufacturing ISM Report On Business®** data is seasonally adjusted for New Orders, Production, Employment, Supplier Deliveries and Inventories.

** Number of months moving in current direction.